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## THE SINGLE TAX IN THE ENGLISH BUDGET

### SUMMARY

The principle of the single tax not to be questioned, 279. — The method of taxation an unfortunate device, 281. — The illusiveness of the *ad valorem* method, 286. — English Budget proposals, 287. — Grounds for expecting no serious results from them, 288.

It may be said with approximate accuracy that the economists have never seriously attacked the theoretical validity of the single tax program. In the main, in fact, they have come nearer to ignoring than to condemning. They have not been interested; or they have regarded its application as of dubious practicability, a hobby of doctrinaires and enthusiasts, a program not yet fully within the range of practical discussion, and bidding fair to deserve attention — if ever — only when more serious matters of the plan shall have been considered; or they have believed that the problem was never susceptible of treatment by other than forward-looking measures, and that any action now must come so tardily as to be better postponed a little longer; or they have declared that the evil of the unearned increment in land is merely one out of a larger class of evils, and is, therefore, in justice only to be attacked when we shall have made ready to proceed without discrimination against all: is it, for example, fair or reasonable to interfere with highway robbery while burglary still so obtrusively flourishes? And, finally, the single taxers have appeared to be men with a bee in the

bonnet, akin to the anarchists and the socialists and to other disturbers of the king's peace and the scholar's calm. Folk like these are not to be foregathered with by thinkers solicitous of their good repute. Economists of all people dread the stigma of radicalism. Far better is it to elucidate and emphasize the excellent aspects of things as they are; otherwise one may seem to question the economic harmonies, or to doubt the validity and the beneficence of natural law, or to bring in question the deft guiding of the divine hand.

Be all this as it may, it is clear that since the time of Ricardo there has been no one to question the menace attaching to the increasing pressure of population upon land. Therewith food and room must tend toward increasing scarcity. Crowded land and poor land are the same thing in their social meanings. And as the conditions of production are tending to become less favorable, food products and space for living less ample, land rents are rising as the direct and inevitable result. A smaller per capita equipment of land means, therefore, a smaller per capita volume of product and thereby a smaller income for the average human being.

Nor is this all: out of a product more and more grievously restricted the landlords are obtaining a larger and larger share. They wax fat by the general hunger. A situation bad at the best is made worse by the terms of the distribution.

Evidently also these increases in the landlord's income have no remotest reference to any merit or deserving on the part of the landlord. The owner of a town lot has raised no crop from it other than tin cans and weed seed; the city garden association has had no use of the land; more probably the small boy

has been fenced off from playing upon it. But the rental value keeps on rising. "All states and territories west of the Mississippi River, including Minnesota and Louisiana, in the year 1902 had a total assessment for ordinary real estate of \$5,249,072,325, and the assessment of ordinary real estate in the City of New York exceeds this amount by nearly \$900,000,000."<sup>1</sup> And note that the land values in Manhattan are reported to average over twice the values of the improvements.

Valid reasons were never offered why a state or a city might not well stand as the landlord over city lots. With agricultural rents, however, the case is measurably different. Some sort of institutional service doubtless attaches to private ownership. Especially is the relation of landlord and tenant disastrous to good husbandry.

Greatly impressed with the weight of these considerations and especially of the latter — but grossly mistaking their meaning — the single tax people fell into their one great error: they became single taxers. And it was small wonder. The evil was manifest, obtrusive, colossal; the machinery and the administrative methods of taxation were already at hand. Not as a question then of fundamental principle but purely as remedy, as method, as a practicable means to their great end in view, they planned to possess themselves of the tax machinery. But obviously the ultimate purpose was merely to make effective the title of society to the social estates, and out of the rents from these estates to provide for the expenses of the commonwealth. Taxation was but a means,

<sup>1</sup> Report of Commissioners of Taxes and Assessments of The City of New York, 1908.

a device, one way of getting at it. But it was a most unfortunate way, — not merely a bad way but, for the cases clearest in their call for remedy, an impossible way. If it were merely the rental income that was sought, the thing to do was to proceed directly against it and not to attack the derivative value.

Nor, on the face of it, does it seem greatly to matter whether a tax be imposed upon the market value of an item of durable property or upon its income. To tax a town lot worth one thousand dollars at one per cent. of its value or at twenty per cent. of its rental would appear to amount to one and the same thing — a ten dollar burden.

But this reasoning forgets that income-earning properties are valuable only by virtue of income and in proportion to income. In the market all trees come to be estimated according to their fruits. The cow is valued for the milk or the butter, the land for its net return of crop, the bond by its coupons, corporate stocks by their dividends. In technical phrase, the market value of any durable good is simply the present worth of its putative future income. To arrive at a valuation it is necessary to know merely the income and the current interest rate on the basis of which to discount these incomes into a present worth. This principle of valuation may have waited long for adequate recognition among economists, but the business world has never found difficulty in accepting it and acting upon it. Investment properties are worth that sum of money which put at interest will furnish the same income.

It follows that taxation upon property is merely a method of taking to the state a part of the income from the property. By such a fraction as the income is diminished will the market value fall. A piece of

real estate which yields fifty dollars net per annum in a five per cent. country is by that very fact worth one thousand dollars. It was precisely this line of analysis that led the single-taxers to their choice of taxation as a method of procedure; and it is to this same analysis that they have appealed for the theoretical basis of their doctrine. Unfortunately, however, it is by the test of this same analysis that their program must be condemned.

For to proceed directly against the rental when it accrues and to proceed directly against the market value when it accrues are not one thing, but two very different things. Total confiscation of an accrued value is impossible by this *ad valorem* tax. A market value of one thousand dollars resting upon an annual rental of fifty dollars can not, by *ad valorem* taxation, be made to yield fifty dollars in taxes. As soon as a fifty dollar tax is imposed upon the one thousand dollar market value, the market value becomes zero. And even with partial confiscation the case is awkward tho not impossible of treatment. It would be a simple thing to take one-fifth of the annual rent; but to impose a tax of one per cent upon the market value will not yield ten dollars. If the yield were really ten dollars the value could be only eight hundred dollars. But a tax of one per cent. upon eight hundred dollars would yield eight dollars and would leave the net income at forty-two dollars. To reach ten per cent. of the income the tax must be at one and one-fourth per cent. upon a market value of eight hundred dollars. If the rate is fixed at one per cent. the tax will return only \$8.33 and the value of the land will stand at \$833.33. At the utmost, the *ad valorem* method can extend no further than to impose a one hundred per cent. tax upon the market value as it

finally adjusts: a tax of 47.619% would leave a net unappropriated rental of 2.381, itself a basis for a value of 47.619.

Possibly enough an extreme single taxer would be satisfied with this degree of accomplishment in the confiscation of accrued values. Not all single taxers, however, disclose this degree of ruthlessness; not all believe in the program of confiscation. Some single taxers recognize that many of the present holders of land, perhaps most of them, are purchasers; that they have paid for the land out of savings from wages or interest; that the land now represents to them nothing unearned; and that whatever unearned increment there ever was now forms part of the non-land wealth of the sellers. And even the single taxers of the stricter discipline would much prefer that the application of the remedy had taken place earlier. They regret the individual hardships which must attend a return by society to the paths it ought never to have abandoned. And when once this return has been accomplished, a preventive and forward-looking policy is proposed; unearned increments will not be permitted to accrue.

It is then fair to ask as the ultimate test of the single tax theory how the single tax program would work in its forward-looking applications. If it fails by this test it may fairly stand as discredited.

Suppose, for example, that a pioneer society has decided to retain for itself the entire increment due to social causes. We start then with the value of a given tract of land standing at zero. Now let it be provided that whenever this land shall come to command a rental, and this rental to express itself in the market guise of a selling price, an annual tax shall

be imposed equivalent to the annual rental income. Is it not clear that on these terms no market value can ever arise? So long as a sale at any price, say at one hundred dollars, will be the signal for the imposition of a tax of five dollars per year, it is evident that no one will pay one hundred dollars for a piece of land offering an annual rental of only five dollars. The state may, however, provide that not the existence of the rental income but the mere act of attempting to buy the income shall serve as the signal for the appropriation of the income by the state. It will then be possible for a purchaser to give one hundred dollars for the land only when the income has risen to ten dollars per year. Under these conditions the tax of five per cent will still leave a net income of five dollars and will justify an investment of one hundred dollars.

Likewise no purchaser can invest one hundred thousand dollars in a property, and in addition thereto pay five thousand per year in taxes, until the income-earning power of the property, having risen to ten thousand annually, would support — were it not for the tax — a market value of two hundred thousand dollars. The state, it is evident, can by its *ad valorem* effort to appropriate the rent get no further than to appropriate one-half.

In fact, however, unless direct appeal is made to the rental income, the state will turn out to get little or nothing. The land which yields ten dollars per year, and is therefore worth two hundred dollars to keep, no purchaser can afford to buy at over one hundred dollars. *Sales can, then, hardly take place.* The state must then establish a potential or hypothetical land value: it must appeal to the rents and on the basis of these must determine not what the actual



value is or ought to be, but what it would be had the state not imposed the taxes and had sales been left possible. It is then clear that it is possible to reach the incomes by placing upon the income or the property itself a tax of ten dollars. But this is not possible if the tax is attempted to be imposed as a percentage of a market value. By the fraction that the net income is reduced the market value disappears.

This April-fool illusiveness of all *ad valorem* methods of taxation is the inevitable outworking of the essential paradox hidden in the method. To attempt to take the income and yet to leave the value is to saw off the limb upon which the single taxer has elected to sit — to eat the honey and still expect to bait bear traps with it. It recalls the case of that Frenchman who did not like spinach and was glad he did not: for, he said, “If I liked it I should eat it, and the very smell of it makes me sick.” The kitten’s fashion of chasing its tail is a pleasing and instructive exercise to watch — especially for its logical implications; but as bearing upon the art and mystery of tail-catching it teaches effectively how best not to do it; and it may some time suggest by analogy the absurdity of attempting to appropriate the value of railroads and other franchises by taxing the market value of the stocks and bonds: or some day — pretending to things still more serious — it may lead to an abandonment of the attempt to prove the existence of a Creator by an appeal to the doctrine of causation.

With the sudden appearance of the single tax as a political issue in England the entire single tax discussion takes on more than a purely academic interest. The economists will now retain no choice: they will have to be interested.

First is to be noted that the Liberal leaders are contemplating no attack upon such values as have already accrued. If these are affected, it will be by inadvertence or sheer mistake. Land values having long been traded in have now come to represent all sorts of saving and investment. True it may be — tragically true no doubt it is — that the ten thousand present owners of the soil of England make the rest of the nation “trespassers in the land of their birth.” But no remedy is offered for this. Perhaps no remedy is possible of offering; it may be now too late for society to assert its claim to those values of which society alone has been the creator. The fault has been historical and institutional — one for which the nation as a whole should pay the penalty rather than that a few individuals or a class should be offered up in vicarious atonement. Surely wholesale confiscation of existing land values is wholesale robbery.

But even of the future increments the Lloyd-George program will take only an insignificant part. Society is to claim merely a part of that to the whole of which the claim must be valid if there be valid claim to any share.

Perhaps the explanation of this exceeding tameness is to be found in political expediency; the principle may be strategically the stronger as its application is less drastic and its logic less heroic. The important thing has seemed to be to force an immediate valuation of present values of land and to place these values definitely upon record in order that future increments may be disclosed for whatever purposes the future may require to know the facts. The landed classes appear to accept the menace of this one-fifth tax a deal more equably than the mere fact that a valua-

tion must take place. What may later come of this valuation scheme? What may be the unknown purposes or uses which it will later serve? The thing is full of menace, the more for its vagueness; the terror of the darkness of unknown waters is upon the proprietors. The claim to the future one-fifth might go unchallenged; it is about the question of the immediate values that the contest rages.

Note, indeed, how velvety harmless is the grip of this new tax in its purely fiscal bearings. The government will collect nothing immediately; it merely gets the property appraised. Take it that a city lot is now worth ten thousand dollars; that it will with the lapse of a hundred years become worth thirty thousand dollars; and that either by sale or by death it will change ownership every tenth year. No tax is claimed now — only the valuation fixed. At the end of each tenth year an increment-tax is imposed of twenty per cent. upon a two thousand dollar increase on value. In a century the government will have collected four thousand dollars of transfer fees out of a twenty thousand dollar social creation of value. Surely the landlords need not be greatly exercised about this *purely as tax*. But they might well be less concerned than they are; for the tax may be warranted not to work.

(1). Even the preliminary valuation is not suited to any fiscal purpose. With every increasing assurance that the new tax program will be adopted, and will work, there must concurrently be taking place a fall in the market values of the lands. So far as transfers are actually occurring, these effects must be already manifest in falling prices. And when finally the law has been enacted, the values of lands will have fallen in a degree to express the present worth

of the expected future increases in the tax burden. Such lands as are thereafter sold will exhibit in their sale prices this prospective diminution of income. The effect on actual sellers, therefore, is that of immediate expropriation rather than the mere menace or promise of a future burden. Purchasers will acquire the properties at the diminished prices expressive of this fall in expected income. The real tax payer is, therefore, the present vendor. If the new proprietors are ever called upon to feel any burden it must be solely by the fact that they have mistakenly appraised the degree of menace.

(2) The sheer fact that the present values are depressed, and that the later advances in value (if they ever come) must be so much the greater, and thereby the tax proportionately heavier, will tend to discourage present owners from either present or future sales. That is to say, all lands will tend to become more desirable to hold for their rents than to sell at their net prices after paying the tax. The larger, also, the accrued increase in values the greater becomes the differential in favor of a continued refusal to sell.

(3) Every fall in the current rate of interest will tend to swell these differentials and further to stagnate the land market. Our illustrative tract of land, it will be remembered, was worth one thousand dollars because it commanded fifty dollars of annual income. Let interest fall to  $2\frac{1}{2}\%$  and the land forthwith becomes worth two thousand dollars. No increase of rentals has taken place; it is the mere fact of a change in the rate of interest that has pushed up the value of the land, the unearned increment of the land, and thereby the transfer tax, and so has made it increasingly unwise to sell the land.

(4) But if the land has sold, great hardship may attend a fall in the rate of interest. A purchaser pays, we will say, one thousand dollars as the price of a fifty dollar annual rent charge; no increase takes place in this rental; but the interest rate falls. His property is now worth two thousand dollars. Forthwith the state becomes entitled, if only it can somehow catch him, to fine him two hundred dollars, — for what? On the other hand, with a rise of the rate of interest, an increase in earning power may take place; but this being unattended by any value increase, the state lacks all *ad valorem* basis for increasing its tax.

(5) Nor will it avail to appraise the land at the market value which it bore at the outset of this agitation. The sales must henceforth take place in full view of the menaced future taxes. And even if the time were ever to come when the lands could sell on the level of this higher appraisal, the very fact that the appraisal was so high would so far reduce the increment of unearned value to be computed.

(6) And still further; there is always much land which is earning no present income and which has value only by its promise of coming later into earning power. Probably, in deed, all land values rest in some share upon the fact that the lands promise a sometime increase in rents. Market values upon suburban lots are notoriously merely these discounted prospects. As the looked-for day approaches these lands move forward in price. The nearer, therefore, these properties are to the time of their earning power, the greater grows the transfer fee to be paid to the state and the more marked, therefore, the relative advantage of holding the lands as against selling them. In truth, if the Liberal statesmen of England

were devising a scheme for guaranteeing the perpetuity of the landed gentry, nothing more effective than this could have been invented.

(7) But there remains still some comfort in the certainty that transfers by death must take place. And if present valuations are made low enough to allow of a later advance in value, something might seem likely to be realized in the way of future succession duties. But here another difficulty presents itself: when a death duty attaches, what will be the basis of this second valuation? And what the basis of the later valuations recurrently to be made? Why should values rise and furnish a differential upon which the one-fifth charge may attach? If there were probability of transfers *inter vivos*, these tax burdens must always stand as a vista of endless prospect, and must themselves be effective to depress each new appraisal. In this computation coming events cast their shadows before in a most disastrous fashion.

(8) But tho transfers *inter vivos* may mostly or entirely cease, death transfers must occur and upon these there will be fees to charge — if only an appraisal can be reached upon which to base the charge. But we have now to ask what at each successive appraisal is likely to be the effect of this infinite series of prospective death charges. With each imposed charge the number to come will be no whit the smaller; eternity suffers no subtraction. The duties on transfers *inter vivos* may perhaps fade out of the reckoning and the death duties remain the only duties to be feared; but if only these prospective death duties are sufficiently feared, they will so depress the present values as to cancel all death duties in the present.

Doubtless the analysis runs at this point into the paradoxical and the incredible. But the paradox is

rather of the problem than of the analysis. It is, indeed, beyond the reach of economic forecast to tell what will happen. In the domain of unreason, reason is likely to prove a halting guide: in this house of tax dementia only the insane are fully at home. But, inasmuch as the death dues must be distant and the rentals near, the market would doubtless somehow set some sort of a price upon the lands, if only these should ever be offered for sale. And, in the absence of an actual market, it is probable that appraisors could arrive at some method of determining what the lands would sell for, if they were ever offered. Anything more definite than this would be difficult to arrive at. But the share of the state is likely to be a small one.

The conclusions are then not far to seek or difficult to summarize. The truth is with the single-taxers in principle but not in method. All *ad valorem* taxation upon durable properties is bad in theory and defective or impossible in practice. The rents and not the capitalized values of the rents must be the object and the basis of the tax. The principle of the single-tax doctrine applies far more widely than merely to the unearned increment of land; but urban lands and corporate monopolies present the field in which the need of action is most urgent and the promise of results most alluring.

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